Results for the Fiscal Year Ended March 2024
Summary of Q&A (May 15, 2024)

Q1.

Regarding the earnings forecast for FY2025/3, the expectation is for an increase of approximately 50 billion yen in net interest income, etc. compared to FY2024/3. Please tell us the main breakdown and factors behind the projected increases.

A1.

Please refer to the Profit Roadmap through FY2026/3 on page 15 of the material on the revision of the Medium-term Management Plan. In FY2025/3, we expect to achieve about 40% of the projected 210 billion yen increase in the yen interest rate portfolio, about one-third of the estimated 120 billion yen increase in credit assets, about half of the estimated 230 billion yen increase in private equity (PE), etc., and almost all of the 60 billion yen increase in other income. Meanwhile, regarding the estimated 535 billion yen decrease in gains from the sale of stocks, etc., about half of the decrease is expected in FY2025/3.

Q2.

Please explain about the capital allocation on page 26 of the material on the revision of the Medium-term Management Plan (FY2022/3-FY2026/3). The target level of the CET1 ratio is set at 10% in normal times, and considering the buffer from the current CET1 ratio, it seems to me that there is room for share buybacks. What do you think?

A2.

The Bank has announced a plan to expand risk assets to 114 trillion yen in order to sustainably increase ROE, while ensuring financial soundness going forward. As a result, the CET1 ratio is expected to gradually decline to a level slightly above 10% at the end of FY2026/3 under the fully phased-in final Basel III framework, and margin on capital is expected to be limited.

As we have previously stated, we will consider share buybacks based on the market environment, the conditions of the Bank's earnings and internal reserves, opportunities for investment in growth, Japan Post Holding's policy regarding its shareholding ratio in the Bank, and other factors.

Q3.

Past disclosure materials have indicated the Bank is aiming for ROE of 5% and net income of approximately 500 billion yen. Are there any updates on this, such as a timeline for achieving the targets?

A3.

In the material disclosed today regarding the revision of the Medium-term Management Plan, it is indicated that the Bank aims to achieve ROE of 5% "in the early stage of the next Medium-term Management Plan."

We expect a steady increase in net income toward the final year of the current Medium-term Management Plan, and we are confident of achieving this goal at an early date in the next Medium-term Management Plan, although we have not expressed a specific date for achieving the goal at this time. That said, it should be noted that we are making such a declaration in the face of uncertainties, such as sudden changes in the market environment.

Q4. (Additional question)

It is recognized that a rise in yen short-term interest rates will be a factor that will boost profits at the Bank, but what assumptions have you made in your current Medium-term Management Plan regarding a rise in yen short-term interest rates?

A4.

As the Bank of Japan ended its negative interest rate policy in March of this year, we expect interest rates to be raised further during this fiscal year. However, we believe it will be difficult to achieve this soon, and the number of rate hikes will be limited due to the significant impact it will have on the domestic economy through higher mortgage and corporate lending rates.

Q5. (Additional question)

Would it be correct to understand that the net income target of 400 billion yen for FY2026/3 was planned after factoring in the Bank of Japan's monetary policy?

A5.

Yes, as you have inferred, we have prepared the plan that incorporates policy rate hikes to some extent.

Q6.

Regarding operations for risk controls, I understand that some hedging is also conducted for domestic stocks, but what is the unrealized gain after taking hedging strategies into account?

A6.

We would like to refrain from giving specific levels of unrealized gains (losses) after taking hedging strategies into account, but as for unrealized gains on long positions, the amount is about 730 billion yen, as shown on page 8 of the Selected Financial Information For the Fiscal Year Ended March 31, 2024.

Q7.

Looking at page 14 of the Selected Financial Information and the assumptions for the earnings forecasts, it appears that the assumption is for yen interest rates to rise and U.S. dollar interest rates to remain flat, but does the Bank's plan factor in a cut in U.S. interest rates? Please provide details on your assumptions for U.S. interest rates.

A7.

The assumptions used in the forecasts are based on the IFR as of March 31, 2024 for both yen and dollar interest rates. As you can see, the rate for the 5-year U.S. Treasury note remains almost unchanged, but the dollar funding cost is expected to decrease, in part due to the effect of lower U.S. interest rates.

Q8.

Regarding gains from PE, the Bank is projecting an increase from FY2025/3 onward. Can you tell us about the factors behind this?

A8.

The expected increase in PE gains can be ascribed mainly to an improvement in exit activity. Looking back on FY2024/3, PE exit activity was stagnant, but we believe the exit environment is gradually improving.

Q9.

What are your thoughts on the benefits of higher yen short-term interest rates for the Bank?

A9.

Currently, the Bank has raised the interest rate on ordinary deposits by up to 2 basis points. However, we estimate that the overall positive effect from higher short-term interest rates will be greater than negative one pushing up interest expenses on deposits. There are two factors in this point.

First, the narrowing interest rate differential between Japan and the U.S. will improve foreign currency funding costs, which will reduce hedging costs and increase revenues from foreign securities, etc.

Second, although it depends on the Bank of Japan's policy interest rate, the policy rate will be applied to most of the approximately 57 trillion yen in deposits at the Bank of Japan, thereby increasing our interest income.

Q10.

The dividend was increased to achieve a dividend payout ratio of more than 50% this time. Would it be correct to assume that dividend increases in increments of 1.0 yen are an indication of the Bank’s intention to raise the dividend as continuously as possible?

A10.

The capital policy, including with regard to dividends, is managed in a manner that balances shareholder returns, financial soundness, and investment for growth.

Based on the approach of maintaining the dividend policy as stated in the

Medium-term Management Plan, which calls for a dividend payout ratio of approximately 50% and efforts to increase dividends in line with profit growth, and in light of prospects for future profit growth due to the recent upturn in the economic environment, including higher yen interest rates, we have increased the dividend by 1.0 yen this time and plan to further increase the dividend for the next fiscal year.

Although there is nothing more that we can say at this stage than what we have announced, we will continue to strive for further growth in profits and a corresponding increase in dividends.

Q11.

In the FY2025/3 business plan for the Bank, how much of an increase in deposit payments is anticipated as a result of the rise in interest rates? What assumptions, if any, have been made about the deposit beta, or the percentage of change in market rates that is passed on to deposit interest rates following a policy rate hike?

A11.

As answered earlier, the plan is formulated with a certain degree of consideration for a rise in yen short-term interest rates, and thus also takes into account a rise in deposit interest rates. The deposit beta in the plan here is what we consider to be the general level in the domestic banking industry.

End

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